

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2006

1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Gardner, Kansas (the City) is located in Johnson County, Kansas and was first incorporated in 1887 under the provisions of the constitution and general statutes of the State of Kansas. The City operates under a Mayor-Council-Administrator form of government and provides a full range of services including public safety (police and fire); public works; community services; recreation and leisure; planning and codes enforcement; general management; and electric, water and wastewater utilities. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The blended component unit, although a legally separate entity, is, in substance, part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

*Blended Component Unit.* The Public Building Corporation (PBC) is a not-for-profit corporation governed by the Mayor, certain City Council members and members of the City's management. The PBC's sole purpose is to acquire assets and construct facilities and infrastructure for the benefit of the City through the issuance of revenue bonds pursuant to Kansas Statute 12-1757. The financial statements of the PBC have been included within the City's reporting entity as a capital projects fund (City Hall). Separately issued financial statements of the PBC are not available.

*Discretely Presented Component Unit.* The Airport Association is a not-for-profit corporation that operates the municipal airport located in the City and promotes economic development at the facility. The governing body of the Airport Association is appointed by the City Council. The Airport Association must obtain the City's approval before issuing debt and the City has also issued debt for the Airport Association. The Airport Association's revenue is derived from the rental of hangar and building space, the sale of fuel and the sale of crops grown on airport property. The Airport Association is presented as an enterprise fund. Separately issued financial statements for the Airport Association are not available.

## CITY OF GARDNER, KANSAS

### NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

#### 1 - Summary of Significant Accounting Policies (Continued)

##### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

##### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The agency fund does not have a measurement focus and uses the accrual basis of accounting to report its financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. A 90-day availability period is used for revenue recognition for all governmental funds revenues except property taxes for which a 60-day availability period is used. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Property taxes, sales taxes, franchise taxes, interest associated with the current fiscal period, and certain state and federal grants and entitlements are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City. While property taxes are shown on the balance sheet as current assets of the City, they are not recognized as revenue at year end because statutory provisions prohibit their use until the year for which they were raised and budgeted. Instead, they are offset by deferred revenue accounts.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This fund accounts for the general operating transactions of the City including public safety, public works, parks, recreation, and administration.

The Celebration Park fund is used to account for the acquisition and construction of a new major park improvement.

The Kill Creek sewer fund is used to account for the acquisition and construction of a major capital sewer improvement.

The street improvement fund is used to account for receipt of the City's excise fee on platted land. The expenditures in this fund are specifically restricted for the purpose of improvement of existing streets and the construction of new streets necessitated by the City's new development growth.

The City reports the following major proprietary funds:

The electric fund accounts for the operation and maintenance activities of the City's electric distribution system.

The water fund accounts for the operation and maintenance activities of the City's water distribution system.

The wastewater fund accounts for the operation and maintenance activities of the City's wastewater collection and treatment system.

Additionally, the City reports the following fund types:

The agency fund accounts for the amounts collected from the municipal court to be remitted to the State of Kansas.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Internal service funds account for risk management, information technology, building maintenance and utility billing services provided to other departments on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and wastewater funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF GARDNER, KANSAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

Cash and investments of the individual funds are combined to form a pool that is managed by the Director of Finance. Each fund's equity in the pool is included in "deposits and investments" in the financial statements. These pooled investments consist of operating accounts, non-negotiable certificates of deposit which are recorded at cost because they are not affected by market rate changes, and investments in the Kansas Municipal Investment Pool (MIP) which is overseen by the State of Kansas. The fair value of the City's position in the MIP is the same as the pool value of the shares. Investment earnings, including interest income, are allocated to the funds required to accumulate interest; other investment earnings are allocated based on management discretion and upon their average daily equity balances. If a fund is not required to account for its own earnings by law or regulation, the earnings are allocated to the General Fund.

For the fiscal year ended December 31, 2006, interest earnings allocated to the various funds were \$ 1,352,368.

The City Hall capital projects fund holds money market accounts totaling \$ 11,800 separate from the pooled cash and investments.

Statement of Cash Flows

For purposes of the statement of cash flows, the City considers deposits and highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2006, cash equivalents consisted of certificates of deposit included in pooled cash described above.

Allowances for Uncollectibles

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 238 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 5% of outstanding property taxes at December 31, 2006.

# CITY OF GARDNER, KANSAS

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 1 - Summary of Significant Accounting Policies (Continued)

#### Restricted Assets

The State of Kansas requires the City to maintain customer utility and developer deposits separate from City assets in the Enterprise Funds. Interest earned on deposits is credited back to customers as required by State statutes. Restricted assets in the general fund consist of court bond deposits. Restricted deposits and investments are also set aside for capital projects.

#### Property Taxes

The City's property tax is levied each year on the assessed value of all real estate listed as of the prior January 1, the lien date. Assessed values are established by Johnson County. The assessed value at January 1, 2005 upon which the 2006 levy was based was approximately \$ 98,248,526.

Property taxes are legally restricted for use in financing operations of the ensuing year. Accordingly, the City defers revenue recognition until the year for which they are to be used. Property taxes are levied on November 1 of each year. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the following year. Property taxes become delinquent on December 20 of each fiscal year if the taxpayer has not remitted at least one-half of the amount due. The Johnson County Treasurer is the tax collection agent for all taxing entities within the County. Property taxes levied in prior years that remain uncollected are recorded as receivables, net of estimated uncollectibles.

# CITY OF GARDNER, KANSAS

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 1 - Summary of Significant Accounting Policies (Continued)

#### Receivable and Payables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Deferred revenue is reported as follows:

General fund property taxes receivable	\$ 2,362,180
Debt service fund property taxes receivable	342,891
Debt service fund special assessments receivable	<u>2,881,730</u>
	<u>\$ 5,586,801</u>

#### Inventories

Inventories consist of expendable supplies and merchandise held for consumption. All inventories are valued at the lower of cost using the first-in/first-out (FIFO method) or market. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

#### Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, sidewalks and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives.

Buildings and improvements	20 - 40 years
Machinery and equipment	10 years
Vehicles	10 years
Infrastructure	15 - 50 years

Compensated Absences

The City's policies allow up to one and one half times employees' earned rates of vacation to be carried over to subsequent years. This carryover is payable upon separation from service and ranges from 120 to 240 hours depending upon the employee's length of service.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. In the governmental fund financial statements, a liability for these amounts is reported only when they have matured, for example, as a result of employee resignations and retirements.

Sick leave for full-time employees is earned at the rate of approximately four hours per bi-weekly pay period with a maximum accumulation of 1,040 hours. Regular part-time employees accrue sick leave at a proportional rate to full-time employees. Accumulated sick pay is not vested, and therefore is not recorded in the financial statements.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Concentrations of Credit Risk

Loans are extended, on a fully secured basis, to local businesses under an economic development loan program. Credit is extended to citizens for special assessments levied by the City for capital improvements. These special assessments are secured by liens on the related properties. Unsecured credit is extended to customers for electric, water and sewer fees and charges for services.

Intergovernmental receivables include unsecured amounts due from federal, state and county agencies for various grant programs.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pending Governmental Accounting Standards Board Statements

At December 31, 2006, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the City. The statements that might impact the City are as follows:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in April 2004. The objective of this statement is to establish uniform financial reporting standards for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The provisions of this statement are effective for periods beginning after December 15, 2006.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued in June 2004. This statement establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. The provisions of this statement are effective for periods beginning after December 15, 2007.

# CITY OF GARDNER, KANSAS

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 2 - Reconciliation of Government-Wide and Fund Financial Statements

#### Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$ 24,993,923 difference are as follows:

General obligation bonds payable	\$ (12,547,850)
PBC revenue bonds	(3,840,000)
Loans payable	(911,889)
Certificates of participation	(7,150,000)
Capital leases payable	(108,152)
Accrued interest payable	(482,351)
Deferred charges for issuance costs	214,346
Compensated absences	(168,027)
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Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$ (24,993,923)
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#### Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 10,646,616 difference are as follows:

Capital outlay	\$ 11,892,514
Loss on disposal of capital assets	(80,105)
Depreciation expense	(1,165,793)
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Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	\$ 10,646,616
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CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$ 10,531,627 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ (3,545,000)
Construction loans	(1,053,190)
Capital leases	(97,958)
Issuance of certificates of participation	(7,150,000)
Issuance costs of general obligation bonds, net	158,452
Principal repayments:	
General obligation debt	660,550
Special assessment debt	245,000
PBC lease revenue bonds	65,000
Construction loans	141,301
Capital leases	44,218
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Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	\$ (10,531,627)
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Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$ 171,021 difference are as follows:

Compensated absences	\$ (19,927)
Accrued interest	(151,094)
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Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ (171,021)
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## CITY OF GARDNER, KANSAS

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

#### 3 - Stewardship, Compliance and Accountability

##### Budgetary Information

Applicable Kansas statutes require that budgets be legally adopted for the general fund, special revenue funds (unless exempted by a specific statute), enterprise funds and the debt service fund. All budgets are prepared utilizing the modified accrual basis. A legal operating budget is not required for the capital projects funds, the equipment reserve fund and the airport special revenue fund. All budgets are prepared utilizing the modified accrual basis further modified by the encumbrance method of accounting – that is, commitments such as purchase orders and contracts, in addition to disbursements and accounts payable, are recorded as expenditures.

The Statutes provide for the following sequence and timetable in adoption of budgets:

- a. Preparation of proposed budget for the succeeding calendar year on or before August 1 of each year.
- b. Publication of proposed budget on or before August 5 of each year.
- c. A minimum of ten days' notice of public hearing, published in a local newspaper, on or before August 15 of each year.
- d. Public hearing on or before August 15 of each year.
- e. Adoption of final budget on or before August 25 of each year.

Kansas statutes permit transferring budgeted amounts from one object or purpose to another within the same fund; however, such statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures in an individual fund. The City Administrator is authorized to approve over-expenditures at the departmental level or transfers of budgeted appropriations between departments. However, management may not amend a fund's total budgeted expenditures without Council approval. The legal level of budgetary control is the fund level. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City. All unencumbered appropriations lapse at the end of the year. Encumbered appropriations are not reappropriated in the ensuing year's budget but are carried forward until liquidated or cancelled. Kansas statutes permit original budgets to be increased for previously unbudgeted increases in revenue other than ad valorem property taxes. The City must first publish a notice of public hearing to amend the budget. Ten days after publication, a public hearing is held and the governing body may amend the budget at that time. There were no budget amendments in 2006.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

3 - Stewardship, Compliance and Accountability (Continued)

Deficit Fund Balance

The Kill Creek Sewer, Lincoln Lane, Moonlight & Main, New Century, 175<sup>th</sup> & Moonlight Intersection, University Park, Kill Creek Drive/Waterline, Center Street Commons, Nike School Sewer, Public Safety Station #2 and Junction Park capital projects funds had deficit fund balances of \$ 922,456, \$ 30,392, \$ 1,978, \$ 1,820,489, \$ 102,513, \$ 2,224,681, \$ 2,134,013, \$ 484,050, \$ 201,988, \$ 26,935 and \$ 1,010, respectively, as of December 31, 2006. The funds incurred expenditures for which permanent financing had not yet become available. The utility billing services and risk management internal service funds had deficit net assets of \$ 6,142 and \$ 2,159, respectively, as of December 31, 2006.

4 - Deposits and Investments

Deposits

*Custodial Credit Risk-Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. Kansas statutes require that deposits be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the City. The carrying amount of deposits for the City was not exposed to custodial credit risk.

The Airport Association does not have a policy covering custodial credit risk. The carrying amount of deposits for the Airport Association was not exposed to custodial credit risk.

Investments

At December 31, 2006, the City had the following investments:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
State of Kansas Municipal Investment Pool	< 1 year	\$ 9,276,443
Money market mutual funds	< 1 year	1,148,243
Repurchase agreements	< 1 year	4,906,110

## CITY OF GARDNER, KANSAS

### NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

#### 4 - Deposits and Investments (Continued)

##### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, but requires that to the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City is not exposed to significant interest rate risk.

##### *Credit risk*

Kansas statutes authorize the City, with certain restrictions, to deposit or invest in temporary notes, no-fund warrants, open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, the State of Kansas Municipal Investment Pool, or to make direct investments. The City has an investment policy which does not impose limitations beyond those of the State of Kansas. The City's investments in the Municipal Investment Pool are rated AAAf/S1+ by Standard & Poor's. The City's investments in money market mutual funds are rated AAAm by Standard & Poor's and Aaa by Moody's.

##### *Custodial Credit Risk – Investments*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. Of the City's investments in repurchase agreements, underlying securities in the form of U.S. Treasuries of \$ 4,906,100 are held by the counterparty, not in the name of the City.

#### 5 - Loan Receivable

During 2002, the City made a loan to the Airport Association for airport improvements. At December 31, 2006, the receivable balance was \$ 11,439 and is included in current liabilities on the Airport Association component unit column of the statement of net assets. The final principal and interest payments are to be made in 2007.



## CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)6 - Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,279,848	\$ 924,004	\$ (22,167)	\$ 3,181,685
Construction in progress	3,133,045	7,940,120	(421,217)	10,651,948
Total capital assets not being depreciated	5,412,893	8,864,124	(443,384)	13,833,633
Capital assets being depreciated:				
Buildings	4,821,808	-	-	4,821,808
Improvements	1,712,732	415,409	-	2,128,141
Infrastructure	22,554,207	818,847	-	23,373,054
Machinery and equipment	1,226,696	71,809	-	1,298,505
Vehicles	1,383,021	414,450	(127,722)	1,669,749
Total capital assets being depreciated	31,698,464	1,720,515	(127,722)	33,291,257
Less accumulated depreciation for:				
Buildings	(707,943)	(119,446)	-	(827,389)
Improvements	(567,064)	(96,022)	-	(663,086)
Infrastructure	(6,919,819)	(708,972)	-	(7,628,791)
Machinery and equipment	(404,945)	(112,804)	-	(517,749)
Vehicles	(631,656)	(130,669)	47,617	(714,708)
Total accumulated depreciation	(9,231,427)	(1,167,913)	47,617	(10,351,723)
Total capital assets being depreciated, net	22,467,037	552,602	(80,105)	22,939,534
Governmental activities capital assets, net	\$ 27,879,930	\$ 9,416,726	\$ (523,489)	\$ 36,773,167

## CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)6 - Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,023,632	\$ 77,656	\$ -	\$ 2,101,288
Construction in progress	11,833,535	12,824,369	(7,636,579)	17,021,325
Total capital assets not being depreciated	13,857,167	12,902,025	(7,636,579)	19,122,613
Capital assets being depreciated:				
Infrastructure	80,032,105	9,524,433	-	89,556,538
Machinery and equipment	390,751	31,814	-	422,565
Vehicles	773,457	185,152	-	958,609
Total capital assets being depreciated	81,196,313	9,741,399	-	90,937,712
Less accumulated depreciation for:				
Infrastructure	(20,370,190)	(2,293,287)	-	(22,663,477)
Machinery and equipment	(179,624)	(38,605)	-	(218,229)
Vehicles	(317,693)	(78,531)	-	(396,224)
Total accumulated depreciation	(20,867,507)	(2,410,423)	-	(23,277,930)
Total capital assets being depreciated, net	60,328,806	7,330,976	-	67,659,782
Business-type activities capital assets, net	\$ 74,185,973	\$ 20,233,001	\$ (7,636,579)	\$ 86,782,395

# CITY OF GARDNER, KANSAS

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 6 - Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

#### Governmental activities:

General government	\$ 179,514
Public safety	85,390
Public works	774,125
Culture and recreation	<u>128,884</u>

Total depreciation expense - governmental activities	<u><u>\$ 1,167,913</u></u>
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#### Business-type activities:

Electric	\$ 985,471
Water	399,252
Wastewater	<u>1,025,700</u>

Total depreciation expense - business-type activities	<u><u>\$ 2,410,423</u></u>
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## CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)6 - Capital Assets (Continued)

Capital asset activity for the Airport Association component unit for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 301,500	\$ -	\$ -	\$ 301,500
Total capital assets not being depreciated	301,500	-	-	301,500
Capital assets being depreciated:				
Buildings	1,574,903	-	-	1,574,903
Equipment	13,390	-	-	13,390
Improvements	54,433	-	-	54,433
Infrastructure	384,462	-	-	384,462
Total capital assets being depreciated	2,027,188	-	-	2,027,188
Less accumulated depreciation for:				
Buildings	(343,297)	(42,418)	-	(385,715)
Equipment	(2,678)	(2,678)	-	(5,356)
Improvements	(7,007)	(2,722)	-	(9,729)
Infrastructure	(134,553)	(10,391)	-	(144,944)
Total accumulated depreciation	(487,535)	(58,209)	-	(545,744)
Total capital assets being depreciated, net	1,539,653	(58,209)	-	1,481,444
Airport Association capital assets, net	\$ 1,841,153	\$ (58,209)	\$ -	\$ 1,782,944

## CITY OF GARDNER, KANSAS

### NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

#### 7 - Defined Benefit Pension Plans

##### Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, Kansas 66603-3803) or by calling 1-800-228-0366.

##### Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute from January through June 2006 was 4.61% and from July through December 2006 was 4.81%. The City employer contributions to KPERS for the years ending December 31, 2006, 2005, and 2004 were \$ 143,386, \$ 113,852, and \$ 94,613, respectively, equal to the statutory required contributions for each year. The KP&F uniform participating employer rate established for fiscal years beginning in 2006 is 12.39%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The contributions to KP&F for the years ending December 31, 2006, 2005, and 2004 were \$ 182,485, \$ 150,115, and \$ 103,675, respectively, equal to the statutory required contributions for each year.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8 - Defined Contribution Plan

The City has established a Section 457 deferred compensation plan for those full-time employees not covered by the KP&F program. The plan administrator International City/County Management Association establishes the annual employee and employer contribution rates for those participating in KPERS as the difference between the rates under the KP&F and KPERS programs. For employees not yet eligible for KPERS, the rates are the same as those for the KP&F program. For 2006, the City's contributions were \$ 108,754.

9 - Risk Management

The City is exposed to various risks of loss related to torts; that is, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health benefits and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There have not been significant reductions in claims from prior years.

The City obtains workers' compensation and employee health insurance through its membership in the Kansas Eastern Region Insurance Trust (KERIT) and the Mid-America Regional Council Insurance Trust (MARCIT), whose members consist of local cities and counties. KERIT is a risk-sharing pool organized under the insurance laws of the State of Kansas which self-insures workers' compensation and other related expenses up to certain limits and reinsures additional excess amounts up to certain limits. The City pays annual premiums to KERIT based upon historical experience and legal requirements mandated by the State of Kansas. The trust agreement allows for member assessments in the event claims and expenses exceed KERIT's self-insured retention limit. MARCIT operates as a purchasing pool to provide medical and dental insurance coverage on both a self-insured and conventional basis. The City does not anticipate any additional assessments in excess of premiums paid as a result of its participation in these trusts.

# CITY OF GARDNER, KANSAS

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 10 - Capital Projects

The City is currently improving its water/sewer and electrical systems, working on street projects and performing various new developments. These projects are being funded primarily by the issuance of bonds, both general obligation and special assessment.

Following is a summary of project – to – date costs to December 31, 2006 on the capital projects compared to the amount authorized:

	<u>Costs to Date</u>	<u>Amount Authorized</u>
Governmental improvements	\$ 4,942,420	\$ 12,229,510
Benefit districts	5,709,528	27,769,570
Sewer improvements	7,261,548	18,143,300
Water improvements	9,584,269	12,373,760
Electric improvements	175,508	299,000
	<u>\$ 27,673,273</u>	<u>\$ 70,815,140</u>

### 11 - Long-Term Debt

#### General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

## CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)11 - Long-Term Debt (Continued)General Obligation Bonds (Continued)

General obligation bonds payable at December 31, 2006 are comprised of the following issues:

	Interest Rates	Original Issue	Final Maturity Date	Principal Payments During 2006	Outstanding December 31, 2006
General Obligation Bonds:					
Governmental activities:					
1998B refunding	4.0%-4.8%	\$ 519,800	9/1/2015	\$ 29,900	\$ 346,150
2002B refunding and improvement	2.0%-4.2%	210,000	9/1/2016	10,000	90,000
2003C refunding and improvement	1.5%-3.6%	2,821,000	10/1/2013	285,650	1,976,700
2004D refunding and improvement	3.5%-4.5%	830,000	10/1/2024	55,000	725,000
2005A improvement	3.1%-4.05%	3,355,000	10/1/2015	280,000	3,075,000
2006A improvement	4.0%-4.125%	3,545,000	10/1/2016	-	3,545,000
				<u>\$ 660,550</u>	<u>\$ 9,757,850</u>
Business-type activities:					
1998A improvement	4.1%-4.9%	1,415,000	9/1/2016	\$ 70,000	\$ 935,000
1998B refunding	4.0%-4.8%	1,740,200	9/1/2015	100,100	1,158,850
1999A improvement	4.3%-5.0%	2,270,000	9/1/2015	130,000	1,470,000
2001A refunding	3.5%-4.7%	8,925,000	11/1/2016	1,335,000	3,000,000
2002B refunding and improvement	2.0%-4.2%	4,650,000	9/1/2016	280,000	3,590,000
2003C refunding and improvement	1.5%-3.5%	329,000	10/1/2012	49,350	183,300
2004A improvement	2.25%-3.3%	1,710,000	10/1/2013	160,000	1,225,000
2004D refunding and improvement	3.5%-3.85%	495,000	10/1/2014	45,000	415,000
2005A improvement	3.1%-4.05%	1,320,000	10/1/2015	110,000	1,210,000
2006A improvement	4.0%-4.125%	7,150,000	10/1/2016	-	7,150,000
				<u>\$ 2,279,450</u>	<u>\$ 20,337,150</u>



CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Long-Term Debt (Continued)

General Obligation Bonds (Continued)

Amortization of Long-Term Debt

The future annual requirements for general obligation bonds outstanding as of December 31, 2006 are as follows:

	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2007	\$ 860,200	\$ 415,648	\$ 2,854,800	\$ 905,498
2008	898,700	339,688	3,041,300	703,745
2009	912,500	308,584	1,947,500	587,378
2010	930,350	275,961	1,764,650	512,519
2011	983,850	241,952	1,851,150	461,623
2012 - 2016	4,857,250	573,067	8,877,750	1,051,059
2017 - 2021	185,000	53,435	-	-
2022 - 2026	130,000	11,925	-	-
	<u>\$ 9,757,850</u>	<u>\$ 2,220,260</u>	<u>\$ 20,337,150</u>	<u>\$ 4,221,822</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Long-Term Debt (Continued)

Special Assessment Bonds

The City's special assessment debt was issued to provide funds for the construction of infrastructure in new residential developments. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. Special assessment bonds at December 31, 2006 are comprised of the following issues:

	Interest Rates	Original Issue	Final Maturity Date	Principal Payments During 2006	Outstanding December 31, 2006
Special Assessment Bonds:					
Governmental activities:					
2001A refunding	3.5%-4.6%	\$ 875,000	11/1/2016	\$ 50,000	\$ 645,000
2002B refunding and improvement	2.0%-4.2%	100,000	9/1/2016	10,000	40,000
2003C refunding and improvement	1.5%-4.4%	670,000	10/1/2018	55,000	515,000
2004D refunding and improvement	3.5%-4.1%	1,835,000	10/1/2019	130,000	1,590,000
				<u>\$ 245,000</u>	<u>\$ 2,790,000</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Long-Term Debt (Continued)

Special Assessment Bonds (Continued)

Amortization of Long-Term Debt

Annual debt service requirements to maturity for special assessment bonds are as follows:

	Governmental activities	
	Principal	Interest
2007	\$ 255,000	\$ 106,994
2008	255,000	98,115
2009	265,000	88,979
2010	280,000	79,378
2011	275,000	68,970
2012-2016	1,180,000	188,238
2017-2021	280,000	22,080
	<u>\$ 2,790,000</u>	<u>\$ 652,754</u>

Construction Loans Payable

During 1996, the City entered into a loan agreement with the Kansas Department of Health and Environment's Kansas Water Pollution Control Revolving Fund. The agreement enabled the City to borrow \$ 2,223,206 to finance improvements to the wastewater system. The loan is being repaid over twenty years at an interest rate of 3.22%. The outstanding balance of \$ 1,242,234 is shown as a liability in the wastewater fund.

During 2000, the City entered into a loan agreement with the Kansas Department of Health and Environment's Kansas Water Pollution Control Revolving Fund. The agreement enabled the City to borrow \$20,078,700 to finance improvements to the wastewater system. The loan is being repaid over twenty years at an interest rate of 3.30%. The outstanding balance of \$ 17,042,600 is shown as a liability in the wastewater fund.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Long-Term Debt (Continued)

Construction Loans Payable (Continued)

During 2005, the City entered into a loan agreement with the Kansas Department of Health and Environment's Kansas Public Water Supply Loan Fund. The agreement enabled the City to borrow \$ 7,582,910 to finance improvements to the water system. The loan will be repaid over ten years at an interest rate of 3.49%. As of December 31, 2006, the City has drawn \$ 6,711,786 on this loan, which is shown as a liability in the water fund. The debt service requirements to the maturity date will not be determinable until the final draw has been made.

During 2006, the City entered into two loan agreements with the Kansas Department of Transportation. The agreements enabled the City to borrow \$ 1,994,206 to finance significant street improvement projects. The loans will be repaid over ten years at an interest rate of 3.6%. As of December 31, 2006, the City has drawn \$ 1,053,190 on these loans. Payments of \$ 141,301 were made in 2006, leaving a total outstanding balance of \$ 911,889. The loans are shown as liabilities in the governmental activities column of the statement of net assets. The debt service requirements to the maturity dates will not be determinable until the final draws have been made.

The future annual debt service requirements for the amortizable loans payable are as follows:

	Principal	Interest
2007	\$ 825,443	\$ 641,432
2008	854,920	611,955
2009	885,450	581,425
2010	917,070	549,805
2011	949,820	517,056
2012 - 2016	6,140,331	1,985,319
2017 - 2021	7,711,800	774,289
	<u>\$ 18,284,834</u>	<u>\$ 5,661,281</u>

PBC Lease Revenue Bonds

The PBC has issued \$ 4,000,000 of Public Building Commission lease revenue bonds series 2002A with interest rates ranging from 3% to 4.7% and with a final maturity in 2021. Principal payments are scheduled annually ranging from \$ 80,000 to \$ 505,000.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Long-Term Debt (Continued)

PBC Lease Revenue Bonds (Continued)

Future maturities of the PBC lease revenue bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 80,000	\$ 171,077	\$ 251,077
2008	100,000	167,878	267,878
2009	115,000	163,878	278,878
2010	135,000	159,277	294,277
2011	160,000	153,743	313,743
2012-2016	1,180,000	645,302	1,825,302
2017-2021	2,070,000	309,390	2,379,390
	<u>\$ 3,840,000</u>	<u>\$ 1,770,545</u>	<u>\$ 5,610,545</u>

On August 1, 2002, the City entered into an irrevocable lease agreement with the PBC. The purpose of the lease agreement is for the City to rent the building financed by the PBC Lease Revenue Bonds, Series 2002A. The rental payments are the same as the scheduled 2002A debt payments.

Certificates of Participation

The City has issued \$ 7,150,000 of certificates of participation series 2006D with interest rates ranging from 3.75% to 4% and with a final maturity in 2016. Principal payments are scheduled annually ranging from \$ 395,000 to \$ 1,195,000.

Future maturities of the certificates of participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 615,000	\$ 287,013	\$ 902,013
2008	395,000	251,737	646,737
2009	475,000	236,925	711,925
2010	620,000	219,112	839,112
2011	810,000	195,863	1,005,863
2012-2016	4,235,000	495,263	4,730,263
	<u>\$ 7,150,000</u>	<u>\$ 1,685,913</u>	<u>\$ 8,835,913</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - Long-Term Debt (Continued)

Capital Leases

The City has entered into the following capital leases:

	Police Cars	Wheel Loader
Cost	\$ 97,958	\$ 81,925
Accumulated depreciation at December 31, 2006	5,106	28,674
Interest rate	6.00%	3.51%
Dated	05/17/06	03/07/03
Term	2 years	4 years

The annual debt service requirements for the capital leases to be paid with governmental funds at December 31, 2006 are as follows:

Year	Principal	Interest	Total
2007	\$ 40,759	\$ 5,073	\$ 45,832
2008	67,393	2,181	69,574
	<u>\$ 108,152</u>	<u>\$ 7,254</u>	<u>\$ 115,406</u>

2006 amortization of \$ 5,106 and \$ 8,193, respectively, on the assets acquired through capital leases has been included in depreciation expense in the governmental activities.

Legal Debt Margin

The City is subject to Kansas statutes which limit the amount of net bonded debt (exclusive of revenue, utility and refunding bonds) the City may have outstanding to 30% of the current assessed valuation of property. At December 31, 2006, the assessed valuation including motor vehicles was \$ 134,950,327. The statutory limit was \$ 40,485,098 which, after reduction for outstanding eligible general obligation bonds totaling \$ 13,046,486 less \$ 184,701 available in the debt service fund, leaves a legal debt margin of \$ 27,623,313.

## CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)11 - Long-Term Debt (Continued)Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 6,873,400	\$ 3,545,000	\$ 660,550	\$ 9,757,850	\$ 860,200
Special assessment debt with government commitment	3,035,000	-	245,000	2,790,000	255,000
Construction loans payable	-	1,053,190	141,301	911,889	-
Certificates of participation	-	7,150,000	-	7,150,000	615,000
PBC revenue bonds	3,905,000	-	65,000	3,840,000	80,000
Capital lease obligations	54,412	97,958	44,218	108,152	40,759
Compensated absences	148,100	207,789	187,862	168,027	168,027
<b>Governmental activities long- term liabilities</b>	<b>\$ 14,015,912</b>	<b>\$ 12,053,937</b>	<b>\$ 1,343,931</b>	<b>\$ 24,725,918</b>	<b>\$ 2,018,986</b>
<b>Business-type activities:</b>					
General obligation bonds	\$ 15,466,600	\$ 7,150,000	\$ 2,279,450	\$ 20,337,150	\$ 2,854,800
Construction loans payable	18,976,298	6,711,786	691,464	24,996,620	825,443
Less deferred amounts:					
Issuance premiums	74,400	-	6,868	67,532	-
Refunding difference	(66,766)	6,210	-	(60,556)	-
<b>Total</b>	<b>34,450,532</b>	<b>13,867,996</b>	<b>2,977,782</b>	<b>45,340,746</b>	<b>3,680,243</b>
Compensated absences	58,663	75,212	64,047	69,828	69,828
<b>Business-type activities long- term liabilities</b>	<b>\$ 34,509,195</b>	<b>\$ 13,943,208</b>	<b>\$ 3,041,829</b>	<b>\$ 45,410,574</b>	<b>\$ 3,750,071</b>
<b>Component unit:</b>					
Loan payable to primary government	\$ 34,783	\$ -	\$ 23,344	\$ 11,439	\$ 11,439

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

12 - Bond Anticipation Notes Payable

The City issues bond anticipation notes to provide temporary financing for capital improvement projects. Bond anticipation notes payable at December 31, 2006 were as follows:

Issue	Original Amount	Interest Rate	Maturity Date
2005C	\$ 5,540,000	3.50%	10/1/2007
2006B	4,430,000	4.0 - 4.2%	6/1/2008
2006C	6,520,000	3.45%	10/1/2007

  

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:				
Bond anticipation notes	\$ 11,642,768	\$ 4,160,000	\$ 6,102,768	\$ 9,700,000
Business-type activities:				
Bond anticipation notes	\$ 8,477,232	\$ 6,790,000	\$ 8,477,232	\$ 6,790,000

13 - Temporary Notes

During the year ended December 31, 2005, the City issued temporary notes to temporarily finance the cost of certain internal improvements. The amount outstanding as of December 31, 2006 was \$ 4,207,000. The temporary notes were internally issued and purchased and therefore eliminated for financial statement purposes.



# CITY OF GARDNER, KANSAS

## NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

### 14 - Special Assessments

Kansas statutes require special benefit district projects financed in part by special assessments to be financed through the issuance of general obligation bonds that are secured by the full faith and credit of the City. Further, state statutes permit levying additional general ad valorem taxes in the City's Debt Service Fund to finance delinquent special assessments receivable. Accordingly, special assessments receivable are accounted for within the City's debt service fund. Special assessments are levied over the repayment period of the bonds and the annual installments are due and payable with annual ad valorem taxes. At December 31, 2006, the special assessment taxes levied are a lien on the property and are recorded as a special assessments receivable in the debt service fund with a corresponding amount recorded as deferred revenue. Special assessments receivable at December 31, 2006 was \$ 2,881,730.

### 15 - Interfund Transactions

Interfund transfers for the year ended December 31, 2006 consisted of the following:

#### Transfers to general fund from:

Electric fund	\$	884,000
Water fund		244,800
Wastewater fund		192,400
		<hr/>
	\$	1,321,200
		<hr/>

#### Transfers to nonmajor governmental funds from:

General fund	\$	800,000
Street improvement fund		378,598
Electric fund		17,303
Wastewater fund		75,596
Water fund		188,911
Nonmajor governmental funds		15,382
		<hr/>
	\$	1,475,790
		<hr/>

#### Transfer to wastewater fund from:

Electric fund	\$	909
		<hr/>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

15 - Interfund Transactions (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Due to and due from other funds are reported in the financial statements as follows:

Amounts owed from nonmajor governmental funds to:

Kill Creek Sewer	\$ 1,820,489
Nonmajor governmental funds	<u>164,164</u>

	<u>\$ 1,984,653</u>
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Amounts owed from wastewater fund to:

Electric fund	<u>\$ 26,070</u>
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The outstanding balances between nonmajor governmental funds were created to eliminate negative cash balances in the payable funds due to project payment timing.

The outstanding balance between proprietary funds was created to reflect the balance owed for services provided.

16 - Commitments and Contingencies

Litigation

The City is involved in various lawsuits incurred through normal operations. It is the opinion of the City's management that the outcome of this litigation will not result in a material loss to the City in excess of applicable insurance coverage.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

16 - Commitments and Contingencies (Continued)

Industrial Revenue Bonds

The City has issued an industrial revenue bond to finance the purchase of land and construction of a facility leased to a local business. The lease agreement provides for rentals sufficient to service the related bonds. The debt service on this issue is paid solely from lease agreements; this issue does not constitute a debt of the City. The lessee has the option of purchasing the leased property at any time during the lease period for an amount sufficient to retire the related outstanding bond. At the end of the lease period, which conforms to bond maturity schedules, the lessee may either purchase the property for a nominal amount or renew the lease annually at a nominal amount. As of December 31, 2006, industrial revenue bonds of \$ 3,358,384 are outstanding.

17 - Insurance Recoveries

During 2006, the City's Kill Creek Wastewater Building sustained extensive damage due to a fire. Insurance recoveries of \$ 195,422 were received and costs of \$ 172,654 were incurred during 2006 to partially restore the building to its previous operating condition. Additional costs in future years will be incurred to fully restore the asset. The City also received \$ 19,302 in insurance proceeds related to lightning damage sustained on a public safety building and a flooded police car.